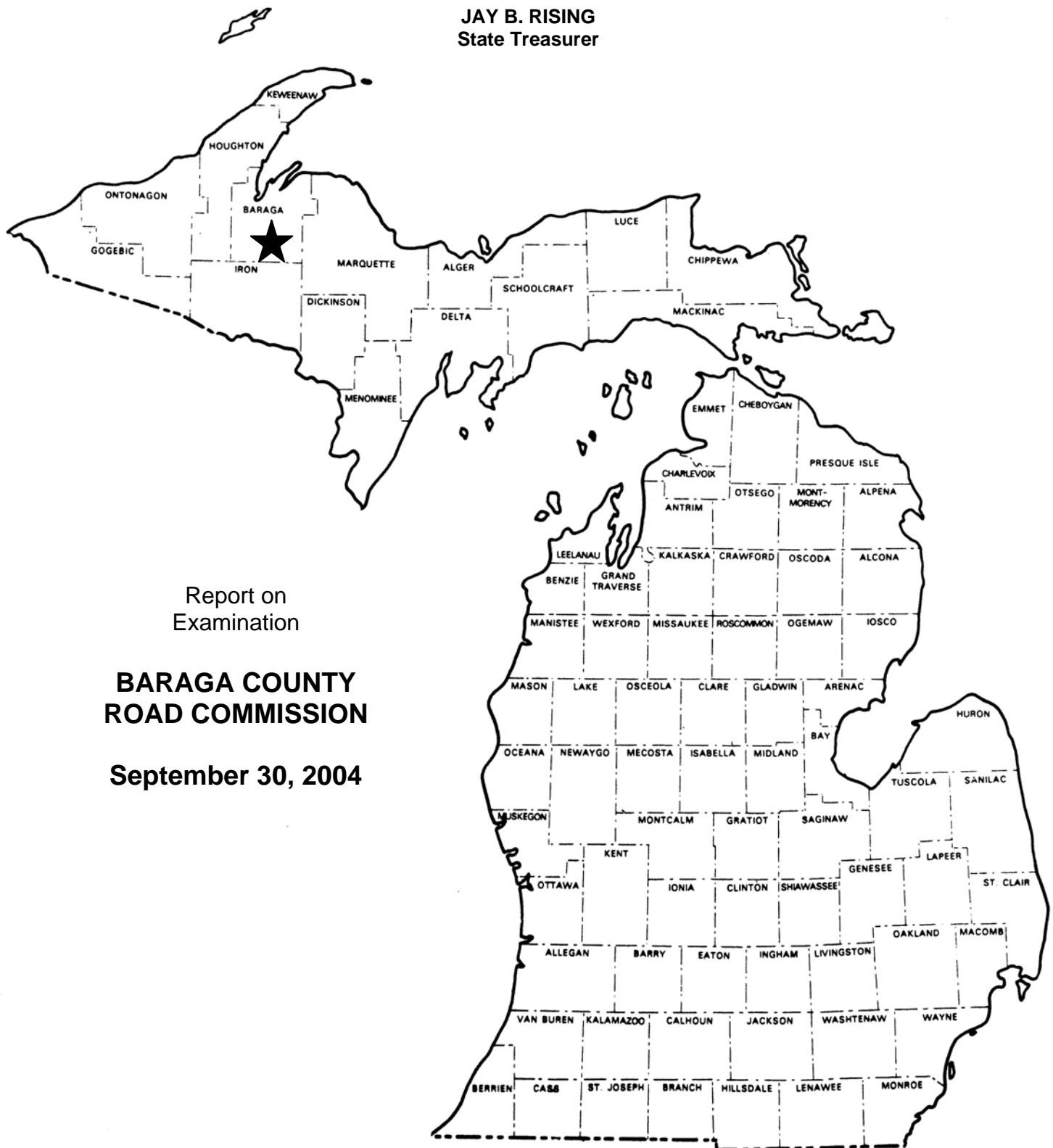


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**BARAGA COUNTY  
ROAD COMMISSION**

**September 30, 2004**

Local Audit and Finance Division  
Bureau of Local Government Services

BARAGA COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Anthony R. Selkey  
Chairperson

Roy J. Koski  
Vice Chairperson

Harold J. Miron  
Member

Douglas J. Mills, P.E.  
Engineer/Manager

Mary R. Bedner  
Clerk/Office Manager

COUNTY POPULATION--2000  
8,746

STATE EQUALIZED VALUATION--2004  
\$270,901,635



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

January 12, 2005

Board of County Road Commissioners  
Baraga County  
US 41 South  
P.O. Box 217  
L'Anse, Michigan 49946

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Baraga County Road Commission, a component unit of Baraga County, Michigan, as of and for the year ended September 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baraga County Road Commission as of September 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 12, 2005 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note M to the basic financial statements, the Baraga County Road Commission has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*; Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Baraga County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits G through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements, taken as a whole.

The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# BARAGA COUNTY ROAD COMMISSION

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BARAGA COUNTY ROAD COMMISSION

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# **BARAGA COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Baraga County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2004. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### **Overview of the Financial Statements**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### **Reporting the Road Commission as a Whole**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

**Report the Road Commission's Major Fund**

The fund financial statements begin with Exhibit A and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

**The Road Commission as a Whole**

This is the first year of implementation for GASB No. 34 and as such a comparative analysis between years could not be presented. The net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net or related debt) are considered restricted.

The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.



**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net assets as of the year ended September 30, 2004 are as follows:

	09/30/04 Governmental Activities
Current and Other Assets	\$ 2,474,451
Net Capital Assets	<u>3,761,097</u>
Total Assets	<u>6,235,548</u>
Current Liabilities	282,131
Long-Term Liabilities	<u>1,141,079</u>
Total Liabilities	<u>1,423,210</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,939,077
Restricted	<u>1,873,261</u>
Total Net Assets	<u><u>\$ 4,812,338</u></u>

A summary of changes in net assets for the year ended September 30, 2004 follows:

	<u>2004</u>
Program Revenue	
Federal Grants	\$ 2,076,095
State Grants	2,459,356
Contributions From Local Units	159,890
Charges for Services	10,226
Investment Earnings	15,268
Reimbursements	26
General Revenue	
Property Taxes	270,291
Gain on Equipment Disposal	<u>(1,049)</u>
Total Revenue	<u>4,990,103</u>
Expenses	
Primary Road Maintenance	794,164
Local Road Maintenance	1,679,746
Net Equipment Expense	(290,723)
Net Administrative Expense	327,622
Compensated Absences	(25,822)
Interest Expense	<u>26,126</u>
Total Expenses	<u>2,511,113</u>
Increase in Net Assets	<u><u>\$ 2,478,990</u></u>

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2004, the fund balance of the General Operations Fund increased \$234,744 as compared to an increase of \$49,383 in the fund balance for the fiscal year ended September 30, 2003. Total operating revenues were \$4,990,103, an increase of \$1,005,834 as compared to last year. This change in revenues resulted primarily from, comparing the two periods, a substantial increase in Federal aid of \$1,149,235. The increase in Federal aid included projects approved for flood recovery from the 2002 and 2003 flood events. The Natural Resource Conservation Service, U.S. Army Corps of Engineers, FHWA Emergency Relief Program, and FEMA all provided additional funding in the 2004 fiscal year.

Total expenditures were \$5,030,359, an increase of \$259,670 in comparison to last year. This change in expenditures is primarily the result of an increase in maintenance and the reconstruction of one bridge and the construction of three new bridges during 2004.

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2004 was \$4,400,000, which was \$865,103 less than the actual revenue received for the year. This was due, in large part, to the Road Commission receiving certain Federal and State aid projects during the year that were not originally planned.

The Road Commission's original expenditures were projected at \$4,400,000, while actual expenditures were \$5,030,359 resulting in actual expenditures being less than the budget by \$630,359. This was primarily due to the Road Commission completing work on additional Federal and State aid projects that were not originally anticipated.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Capital Assets and Debt Administration**

Capital Assets

As of September 30, 2004, the Road Commission had \$3,761,096 invested in capital assets as follows:

	<u>09/30/03</u>	<u>09/30/04</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 34,277	\$ 106,277	0.00%
Infrastructure--Land and Improvements		<u>1,401,237</u>	<u>100.00%</u>
Subtotal	<u>34,277</u>	<u>1,507,514</u>	<u>97.73%</u>
Capital Assets Being Depreciated			
Buildings	473,289	490,069	3.42%
Road Equipment	5,193,451	5,292,582	1.87%
Shop Equipment	98,283	99,994	1.71%
Office Equipment	73,051	45,120	-61.90%
Engineer's Equipment	86,963	103,319	15.83%
Stockroom Equipment	41,970	42,170	0.47%
Depletable Assets	53,083	53,083	0.00%
Infrastructure--Bridges		596,505	100.00%
Infrastructure--Roads		<u>448,143</u>	<u>100.00%</u>
Subtotal	<u>6,020,090</u>	<u>7,170,985</u>	<u>16.05%</u>
Total Capital Assets	6,054,367	8,678,499	30.24%
Total Accumulated Depreciation	<u>(4,570,574)</u>	<u>(4,917,402)</u>	<u>7.05%</u>
Total Net Capital Assets	<u>\$ 1,483,793</u>	<u>\$ 3,761,097</u>	<u>60.55%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,445,885. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This year's major capital asset additions included the following:

Construction and Reconstruction of Bridges	\$ 737,953
Various Resurfacing Projects and Related Land/Right-of-Way	1,707,932
Road Equipment	107,755
Land	72,000
Other Various Equipment	<u>35,726</u>
Total Additions	<u><u>\$2,661,366</u></u>

There were no new installment purchase agreements entered into during 2004; all the equipment was acquired with Road Commission funds.

**Debt**

At the year end, the Road Commission had \$547,020 in installment purchase agreements versus \$763,140 last period, a decrease of \$216,120 or 28.32% as shown below:

	<u>2003</u>	<u>2004</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 763,140</u>	<u>\$547,020</u>	<u>\$216,120</u>	<u>28.32%</u>
Total	<u><u>\$ 763,140</u></u>	<u><u>\$547,020</u></u>	<u><u>\$216,120</u></u>	<u><u>28.32%</u></u>

More detailed information about the Road Commission's long-term liabilities is presented in Note G to the financial statements.

During 2004, the Road Commission entered into a three year agreement with the State Infrastructure Bank for a three year \$275,000, 0% loan to be paid in full at the end of the third year.

**Economic Factors and Next Year's Budget**

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the Michigan Transportation Fund (MTF). The MTF provides the primary operating revenue for the Road Commission. Changes by the State of Michigan in trailer plate fee collections resulted in a one year spike in the MTF. Because the trailer plates are now purchased one time instead of annually, revenues from the collections increased the MTF funding for 2004. The anticipated MTF funding for Baraga County is estimated to decrease by about 2.9% for the 2005 fiscal year. Due to higher fuel prices, the economic conditions throughout the state and more fuel efficient vehicles, fuel tax collections are also expected to be down resulting in less Michigan Transportation Fund tax to be collected.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Road Commission anticipates major road and bridge projects to be funded by various State and Federal agencies including the Bureau of Indian Affairs. Countywide road millage and township contributions are also expected to assist in completing many projects in the 2005 fiscal year.

Key concerns such as continued health insurance cost increases and unfunded employee retirement liability were all discussed during the preparation of the 2005 fiscal year budget.

The above are general items that were considered when adopting the budget for 2005. Amounts expected to be available for appropriation in the 2005 budget are \$10,370,000.

The board realizes, and the reader should understand, that there are not sufficient funds available to adequately address the needs of the county road system, as a whole. Additional preventative maintenance, reconstruction, resurfacing and surfacing gravel roads throughout the county is needed. Many needed projects remain unfunded and priorities must be established for the entire system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Baraga County.

**Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Baraga County administrative offices at: US 41 South, L'Anse, Michigan, 49946.

**BARAGA COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2004**

**EXHIBIT A**

**ASSETS**

Cash	\$ 727,679
Accounts Receivable	
Sundry Accounts	13,854
Michigan Transportation Fund	320,213
State--Other	702,668
Due From Federal	131,008
Inventories	
Road Materials	402,458
Equipment Parts and Materials	128,460
Prepaid Expenses	48,111
Capital Assets (Net of Accumulated Depreciation)	<u>3,761,097</u>
Total Assets	<u>6,235,548</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	168,007
Retainage Payable	4,047
Due to State of Michigan	61,831
Accrued Liabilities	45,045
Driveway Snow Plowing Deposits	(16,238)
Due Other Units of Government	12,859
Other Accrued Liabilities	6,580
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due in One Year	224,855
Installment Purchase Agreements Payable--Due in More Than One Year	322,165
State Infrastructure Bank Payable--Due in More Than One Year	275,000
Vested Employee Benefits Payable	<u>319,059</u>
Total Liabilities	<u>1,423,210</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	2,939,077
Restricted for County Roads	<u>1,873,261</u>
Total Net Assets	<u><u>\$ 4,812,338</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2004**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 794,164
Local Road Maintenance	1,679,746
Net Equipment Expense	(290,723)
Net Administrative Expense	327,622
Compensated Absences	(25,822)
Interest Expense	<u>26,126</u>
Total Program Expenses	<u>2,511,113</u>
Program Revenue	
Charges for Services	
Charges for Services	10,226
Reimbursements	26
Operating Grants and Contributions	
Michigan Transportation Funds	2,181,433
Investment Earnings	15,268
Capital Grants and Contributions	
Federal Grants	2,076,095
State Grants	277,923
Contributions From Local Units	<u>159,890</u>
Total Program Revenue	<u>4,720,861</u>
Net Program Revenue	<u>2,209,748</u>
General Revenue	
Taxes	270,291
Gain on Equipment Disposal	<u>(1,049)</u>
Total General Revenues and Transfers In	<u>269,242</u>
Change in Net Assets	<u>2,478,990</u>
Net Assets	
Beginning of Year	<u>2,333,348</u>
End of Year	<u><u>\$ 4,812,338</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**BALANCE SHEET**  
**September 30, 2004**

**EXHIBIT C**

**GOVERNMENTAL**  
**FUND TYPE**

General  
Operating  
Fund

**ASSETS**

Cash and Cash Equivalents	\$ 727,679
Accounts Receivable	
Michigan Transportation Funds	320,213
State Highway--Other	702,668
Sundry Accounts	13,854
Due From Federal Government	131,008
Inventories	
Road Materials	402,458
Equipment Parts and Materials	128,460
Prepaid Expense	48,111
	<hr/>
Total Assets	<u>\$ 2,474,451</u>

**LIABILITIES AND FUND EQUITY**

Liabilities	
Accounts Payable	\$ 168,007
Retainage Payable	4,047
Accrued Liabilities	45,045
Due to State	61,831
Due to Other Units of Government	12,859
Other Accrued Liabilities	6,580
Advances	
Driveway Plowing	(16,238)
Deferred Revenue--FEMA	430,483
	<hr/>
Total Liabilities	<u>712,614</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	530,918
Reserved for Self-Insurance	222,397
Unreserved and Undesignated	1,008,522
	<hr/>
Total Fund Equities	<u>1,761,837</u>
	<hr/>
Total Liabilities and Fund Equities	<u>\$ 2,474,451</u>

**The Notes to Financial Statements are an integral part of this statement.**



**BARAGA COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2004**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 1,761,837
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are  
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,761,097
--	-----------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	(1,141,079)
---	-------------

Deferred revenue is not available pay for current period expenditures and, therefore, not reported in the funds	<u>430,483</u>
--	----------------

Net Assets of Governmental Activities	<u><u>\$ 4,812,338</u></u>
---------------------------------------	----------------------------

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended September 30, 2004**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 270,291
Federal Aid	2,076,095
State Aid	2,459,356
Contributions From Local Units	159,890
Charges for Services	203
Interest and Rents	15,268
Other Revenue	<u>9,000</u>
Total Revenues	<u>4,990,103</u>
Expenditures	
Public Works	4,572,632
Capital Outlay	215,481
Debt Service	<u>242,246</u>
Total Expenditures	<u>5,030,359</u>
Excess of Revenues Over (Under) Expenditures	(40,256)
Other Financing Sources	
Proceeds From State Infrastructure Bank	<u>275,000</u>
Total Other Financing Sources	275,000
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>234,744</u>
Fund Balance--October 1, 2003	<u>1,527,093</u>
Fund Balance--September 30, 2004	<u><u>\$ 1,761,837</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2004**

**EXHIBIT F**

Net Change in Fund Balance--Total Fovernmental Funds	\$ 234,744
--	------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	2,277,304
---	-----------

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	(58,880)
---	----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absenses and decrease in interest expense)	<u>25,822</u>
---	---------------

Change in Net Assets of Governmental Activities	<u><u>\$2,478,990</u></u>
---	---------------------------

**The Notes to Financial Statements are an integral part of this statement.**

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Baraga County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Baraga County Road Commission.

#### NOTE A--REPORTING ENTITY

The Baraga County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Baraga County Road Commission, a discretely presented component unit of Baraga County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Baraga County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investments are recorded at cost.

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

#### Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Baraga County Road Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 makes it optional for phase III governments (Baraga County) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Baraga County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2008, as permitted by GASB Statement No. 34.

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

##### Property Taxes

The 2003 State equalized valuation of Baraga County amounted to \$245,698,873 and the taxable valuation was \$167,436,443 on which ad valorem taxes of 1.972 mills were levied for the Road Commission and the Villages of L'Anse and Baraga's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

The county's 2003 ad valorem tax was levied and collectible on December 1, 2003. It is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing operations. The 2003 tax levy for Road Commission operations were recorded as revenue during the year ended September 30, 2004 totaling \$257,031 for all taxes received.

##### Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institutions, to the interest-bearing account.

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board.

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Also, the board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring up to 20% from one line-item to another.

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

### NOTE D--DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in banks in the name of the Baraga County Treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The County Road Fund's deposits are in accordance with statutory authority. The balance sheet caption "Cash" includes \$100 of imprest cash.

The county board of road commissioners has adopted the county's investment policy, which includes all of the investments allowable under Public Act 20 of 1943, as amended.

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 339,827	\$ 246,827
Uninsured	781,746	480,752
Imprest Cash		100
Total	<u>\$ 1,121,573</u>	<u>\$ 727,679</u>



# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--DEFERRED COMPENSATION PLAN

The Baraga County Road Commission offers all Road Commission employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. During 1998, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are: Nationwide Retirement Solutions, Hartford Life Insurance Company and EF Jones Insurance and are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

### NOTE F--RESERVE FOR SELF-INSURANCE

The Baraga County Board of Road Commissioners' policy is to self-insure for fleet collision coverage and employee group life coverage. The Collision Insurance Reserve Account was established in 1969 and the Life Insurance Reserve Account in 1982. The reserve accounts are funded by annual transfers of amounts equal to what the approximate premium would be on the respective coverage, plus interest earned on interest-bearing deposits of the reserve account. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account are greater than the estimated premium cost. All collision repair costs on road equipment and group life benefit payments are expensed when paid and closed to the respective reserve account at year-end.

	Collision Insurance Reserve	Life Insurance Reserve	Total Self-Insurance Reserve
Balance--October 1, 2003	\$ 146,374	\$ 70,527	\$ 216,901
Additions			
Interest Earned	3,709	1,787	5,496
Deductions			
2003/2004 Charges for Claims			-
Balance--September 30, 2004	<u>\$ 150,083</u>	<u>\$ 72,314</u>	<u>\$ 222,397</u>

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances 10/01/03</u>	<u>Additions (Reductions)</u>	<u>Balances 09/30/04</u>	<u>Due Within One Year</u>
<u>Installment Purchase Agreement</u>				
Payable to Commercial National Bank for				
One CAT D3 Dozer	\$ 45,529	\$ (19,822)	\$ 25,707	\$ 20,456
One Case 821 C Loader	106,234	(46,252)	59,982	47,730
Four CAT 140H Motor Graders	611,377	(150,046)	461,331	156,669
State Infrastructure Bank (SIB) Loan		275,000	275,000	
Vested Employee Benefits Payable				
Vacation Benefits	79,725	(3,840)	75,885	
Sick Leave Benefits	<u>265,156</u>	<u>(21,982)</u>	<u>243,174</u>	
Total	<u>\$ 1,108,021</u>	<u>\$ 33,058</u>	<u>\$1,141,079</u>	<u>\$ 224,855</u>

### Installment Purchase Contract

The installment purchase contract was entered into on December 16, 2002 for the purchase of one CAT D3 Dozer for at a cost of \$60,000 from Commercial National Bank. The agreement bears interest at 3.04% per annum with 36 monthly payments of \$1,745.99 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 20,456	\$ 496	\$20,952
2006	<u>5,251</u>	<u>26</u>	<u>5,277</u>
Total	<u>\$25,707</u>	<u>\$ 522</u>	<u>\$26,229</u>

The installment purchase contract was entered into on December 16, 2002 for the purchase of a 2003 Case 821 C Loader at a cost of \$140,000 from Commercial National Bank. The agreement bears interest at 3.04% per annum with 36 monthly payments of \$4,073.97 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$47,730	\$ 1,158	\$48,888
2006	<u>12,252</u>	<u>89</u>	<u>12,341</u>
Total	<u>\$59,982</u>	<u>\$ 1,247</u>	<u>\$61,229</u>

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

The installment purchase contract was entered into on July 16, 2003 for the purchase of Four CAT 140H Motor Graders for a total cost of \$635,802 from Commercial National Bank. The agreement bears interest at 4.04% per annum with 48 monthly payments of \$14,367.19 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 156,669	\$ 15,738	\$ 172,407
2006	163,116	9,290	172,406
2007	141,546	2,625	144,171
Total	<u>\$ 461,331</u>	<u>\$ 27,653</u>	<u>\$ 488,984</u>

The State Infrastructure Bank loan contract was entered into on February 13, 2004 for the purchase of financing infrastructure improvements for a total cost of \$275,000 from Michigan Department of Treasury. The agreement bears no interest and the full amount is due February 13, 2007.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005			
2006			
2007	<u>\$275,000</u>		<u>\$ 275,000</u>
Total	<u>\$275,000</u>	<u>\$ -</u>	<u>\$ 275,000</u>

### Vacation Benefits

The Road Commission's employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. All vacation time accrued through December 31 of the current year shall be utilized in the following year.

### Sick Leave Benefits

The sick leave benefits liability recorded as long-term debt in the Statement of Net Assets reflects only those vested benefits which would be payable should an employee quit.

The Road Commission's employment policies provide that sick leave is accumulated at the rate of 1 day per month for all regular employees who have worked more than ½ of the normal working hours during the month. There is no limit on the accumulation of sick leave and accumulated benefits shall be paid at the employee's prevailing rate of pay in accordance with the following policy:

1. Retirement or Death--An employee shall receive pay in a lump sum for accumulated sick leave at the following rate: 100% of the first 120 days and 50% of the remainder.

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

2. Resignation--An employee shall receive pay in a lump sum for accumulated vested sick leave computed as follows:

0-5 years	No sick leave benefits
5-10 years	50% of accumulated benefits
10-15 years	75 % of the first 120 days, and 50% of the remainder
15 or more years	100% of the first 120 days, and 50% of the remainder

### NOTE H--CAPITAL ASSETS

Following is a summary of the changes in the capital assets at September 30, 2004.

	Account Balances 09/30/03	Additions	Deductions	Account Balances 09/30/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 34,277	\$ 72,000		\$ 106,277
Infrastructure--Land Improvements		1,401,237		1,401,237
Subtotal	34,277	1,473,237	\$ -	1,507,514
Capital Assets Being Depreciated				
Buildings	473,289	16,780		490,069
Road Equipment	5,193,451	107,755	8,624	5,292,582
Shop Equipment	98,283	1,759	48	99,994
Office Equipment	73,051	631	28,562	45,120
Engineers' Equipment	86,963	16,356		103,319
Stockroom Equipment	41,970	200		42,170
Depletable Assets	53,083			53,083
Infrastructure--Bridges		596,505		596,505
Infrastructure--Roads		448,143		448,143
Total	6,020,090	1,188,129	37,234	7,170,985
Less Accumulated Depreciation				
Buildings	280,933	10,973		291,906
Road Equipment	4,033,922	351,106	7,809	4,377,219
Shop Equipment	77,559	3,948	48	81,459
Office Equipment	61,814	3,240	28,328	36,726
Engineers' Equipment	36,738	10,376		47,114
Stockroom Equipment	30,169	2,985		33,154
Depletable Assets	49,439	385		49,824
Total	4,570,574	383,013	36,185	4,917,402
Net Capital Assets Being Depreciated	1,449,516	1,188,129	384,062	2,253,583
Total Net Capital Assets	\$ 1,483,793	\$ 2,661,366	\$ 384,062	\$ 3,761,097

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE H--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$351,106
Indirect Equipment	16,976
Net Administrative Expenses	
Office	3,240
Engineering	10,376
Building	930
Depletable Assets	<u>385</u>
Total Depreciation Expense	<u><u>\$383,013</u></u>

#### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims, self insures for fleet collision and employee group life coverage as detailed in Note F, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the state. The Baraga County Road Commission became a member of the pool in 1980 for workers compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--EMPLOYEES' RETIREMENT SYSTEM

##### Description of Plan and Plan Assets

The Baraga County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.00% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a)), as amended, State of Michigan. The MERS actuarial report was made in accordance with generally recognized actuarial methods in compliance with Public Act 220 of 1996, as amended, and the MERS plan document as revised. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 10.92% for the calendar year ending December 31, 2003.

##### Annual Pension Cost

During the calendar year ended December 31, 2004, the Road Commission's contributions totaling \$120,071 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE J--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$109,257	100%	\$0
2002	114,527	100%	0
2003	113,841	100%	0

#### Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$4,195,600	\$4,817,718	\$ 622,118	87%	\$ 958,639	65%
12/31/02	4,139,171	5,175,064	1,035,893	80%	1,003,239	103%
12/31/03	4,195,102	5,630,744	1,435,642	75%	1,078,124	133%

Significant actuarial assumptions used include:

- 1) Long-term investment yield rate of 8%;
- 2) Annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and
- 3) Base inflation of 4.5%.

### NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note J, the Baraga County Road Commission provides post-employment health care insurance benefits to certain retired or permanently disabled union and administrative employees and/or their spouse in accordance with the following provisions:

#### Retired Union Employees

The hospital and medical coverage benefits are provided in accordance with Article 33(A.2a) and 33(A.2b) in the union agreement. Article 33(A.2a) states: When an employee elects to retire early and has at least twenty (20) years of continuous service with the Road Commission, the Road Commission agrees to continue to pay the premiums for the lesser of: (1) five years; or (2) until the employee's qualification for Medicare or death.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--POST-EMPLOYMENT BENEFITS (Continued)

Article 33(A2b) states: For employees employed as of December 31, 1998 electing to retire early, the Road Commission agrees to continue to pay the premiums from age 62 to 65 or until the employee qualifies for Medicare or death, whichever comes sooner, even if the employee has not completed such twenty (20) years.

#### Retired Administrative Employees

The benefits are provided in accordance with Section 10(A.2) of the "General Employee Policy pertaining to Non-Bargaining Unit Employees," which includes the provision that when an employee elects to retire early, the Road Commission agrees to pay the medical insurance premium from age 60 to 65 or until the employee qualifies for Medicare, whichever comes sooner.

#### Permanently Disabled Employees

The benefits are provided in accordance with a board of road commissioners' policy adopted on November 13, 1996, which includes the provision that any regular employee having 20 years of service with the Road Commission who becomes permanently disabled, or any regular employee having 5 years of service with the Road Commission who becomes permanently disabled after reaching age 55, shall be eligible for health insurance benefits for a 36 month period. Said period shall commence the month after the month of the last day worked. Eligible employees are those who have been determined to be permanently disabled and are receiving social security disability and MERS retirement benefits. During the three year period under this policy, the Road Commission will pay the premiums for primary coverage until such time that the employee qualifies for Medicare Part B, at which time the Road Commission will pay the premium for secondary coverage.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During the fiscal year ended September 30, 2004, eight retirees and/or disabled employees were eligible for this benefit at a total cost of \$74,935.



## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2004, the Federal aid expended by the Road Commission was \$1,035,140 for contracted projects and \$978,203 for negotiated projects. The Federal aid received by the Road Commission was \$1,035,140 for contracted projects and \$814,294 for negotiated projects. The difference between the revenue and expenditures for negotiated projects is due to FEMA projects in progress at September 30, 2004, which are to be billed after project completions. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's Single Audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission and are subject to a single audit if the expenditures exceeded \$500,000. A Single Audit was performed during the fiscal year ended September 30, 2004, as there was \$978,203 expended in Federal Awards.

#### NOTE M--CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the accrual basis of accounting. Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating contributed capital accounts and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations. Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement No. 34.

**BARAGA COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
For the Year Ended September 30, 2004**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 260,000	\$ 271,000	\$ 270,291	\$ (709)
Federal Aid (Negotiated Projects)				
Bureau of Indian Affairs	30,000	226,000	226,661	661
FEMA	590,000	194,000	220,466	26,466
Emergency Watershed Protection	350,000	319,000	318,675	(325)
Surface Transportation Funds		254,000	275,153	21,153
Federal Aid (Contracted Projects)				
Surface Transportation Funds	200,000	413,000	417,614	4,614
Safety	100,000	200,000	198,598	(1,402)
Army Core of Engineers		312,000	311,926	(74)
Category "D" Funds		95,000	94,648	(352)
Emergency Relief	400,000	34,000	12,354	(21,646)
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,165,000	1,215,000	1,232,530	17,530
Local Road	622,000	655,000	663,833	8,833
Snow Removal	285,000	275,000	275,070	70
Economic Development Funds				
Economic "D" Funds		24,000	23,662	(338)
Forest Funds (E)	168,000	168,000	167,479	(521)
FEMA	100,000	32,000	35,790	3,790
Other State Grants		51,000	50,992	(8)
Contributions--Local Units				
Townships	100,000	112,000	112,140	140
County		8,000	7,750	(250)
Village		40,000	40,000	-
Charges for Services				
Salvage Sales	4,000	1,000	203	(797)
Interest and Rents				
Interest Earned	15,000	15,000	15,268	268
Other Revenue				
Refunds/Rebates			26	26
Gain on Equipment Disposals	1,000	1,000	(1,049)	(2,049)
Private Contributions		10,000	10,023	23
Total Operating Revenue	4,400,000	4,935,000	4,990,103	55,103
Other Financing Sources				
Proceeds From Installment Purchase		275,000	275,000	-
Total Other Financing Sources	-	275,000	275,000	-
Total Revenue and Other Financing Sources	4,400,000	5,210,000	<u>\$ 5,265,103</u>	<u>\$ 55,103</u>
Fund Balance--October 1, 2003	-	200,000		
Total Budget	<u>\$ 4,400,000</u>	<u>\$ 5,410,000</u>		

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**For the Year Ended September 30, 2004**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 1,000,000	\$ 1,450,000	\$ 1,408,794	\$ 41,206
Maintenance	600,000	830,000	794,065	35,935
Local Road				
Heavy Maintenance	400,000	330,000	299,138	30,862
Maintenance	1,500,000	1,720,000	1,677,101	42,899
Primary Road Structure				
Construction	40,000	400,000	369,078	30,922
Heavy Maintenance	10,000	1,000	-	1,000
Maintenance	10,000	1,000	99	901
Local Road Structure				
Construction	200,000	130,000	93,110	36,890
Heavy Maintenance		305,000	275,765	29,235
Maintenance	5,000	5,000	2,645	2,355
Equipment Expense--Net	65,000	(226,000)		
Direct			\$ 637,826	
Indirect			261,790	
Operating			128,073	
Less: Equipment Rentals			<u>(1,318,412)</u>	(290,723)
				64,723
Administrative Expense--Net	300,000	359,000		
Administrative Expense			327,622	
Purchase Discounts			<u>-</u>	327,622
				31,378
Capital Outlay--Net	(55,000)	(139,000)		
Capital Outlay			215,481	
Less: Depreciation Credits			(383,013)	
Equipment Retirements			<u>(1,049)</u>	(168,581)
				29,581
Debt Service				
Principal Payments	220,000	217,000	216,120	880
Interest Expense	<u>30,000</u>	<u>27,000</u>	<u>26,126</u>	<u>874</u>
Total Expenditures	4,325,000	5,410,000	<u>\$ 5,030,359</u>	<u>\$ 379,641</u>
Fund Balance--September 30, 2004	<u>75,000</u>	<u>-</u>		
Total Budget	<u>\$ 4,400,000</u>	<u>\$ 5,410,000</u>		

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2004**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,885,028	\$2,072,854	\$ 32,221	\$4,990,103
Total Expenditures	2,657,929	2,344,263	28,167	5,030,359
Excess of Revenues Over (Under) Expenditures	227,099	(271,409)	4,054	(40,256)
Other Financing Sources (Uses) Proceeds From State Infrastructure Bank		275,000		275,000
Total Other Financing Sources (Uses)	-	275,000	-	275,000
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	227,099	3,591	4,054	234,744
Fund Balance--October 1, 2003	-	-	1,527,093	1,527,093
Fund Balance--September 30, 2004	\$ 227,099	\$ 3,591	\$ 1,531,147	\$ 1,761,837

**BARAGA COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES AND  
OTHER FINANCING SOURCES  
For the Year Ended September 30, 2004**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes		\$ 270,291		\$ 270,291
Federal Aid (Negotiated Projects)				
Bureau of Indian Affairs	\$ 24,302	202,359		226,661
FEMA	58,006	162,460		220,466
Emergency Watershed Protection	246,526	72,149		318,675
Surface Transportation Funds	275,153			275,153
Federal Aid (Contracted Projects)				
Surface Transportation Funds	417,614			417,614
Safety	198,598			198,598
Army Core of Engineers	78,240	233,686		311,926
Category "D" Funds	94,648			94,648
Emergency Relief	12,354			12,354
State Aid				
Michigan Transportation Fund				
Engineering	6,499	3,501		10,000
Allocation	1,232,530	663,833		1,896,363
Snow Removal		275,070		275,070
Economic Development Fund				
Economic "D" Funds	23,662			23,662
Forest Funds (E)	167,479			167,479
FEMA	9,417	26,373		35,790
Other State Aid		50,992		50,992
Contributions--Local Units				
Townships		112,140		112,140
County			\$ 7,750	7,750
Village	40,000			40,000
Charges for Services				
Salvage Sales			203	203
Interest and Rents				
Interest Earned			15,268	15,268
Other Revenue				
Refunds/Rebates			26	26
Gain on Equipment Disposal			(1,049)	(1,049)
Contributions From Private Sources			10,023	10,023
Total Operating Revenue	2,885,028	2,072,854	32,221	4,990,103
Other Financing Sources				
State Infrastructure Bank Loan		275,000		275,000
Total Other Financing Sources	-	275,000	-	275,000
Total Revenue and Other Financing Sources	\$ 2,885,028	\$ 2,347,854	\$ 32,221	\$ 5,265,103

**BARAGA COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2004**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 1,408,794			\$ 1,408,794
Maintenance	794,065			794,065
Local Road				
Heavy Maintenance		\$ 299,138		299,138
Maintenance		1,677,101		1,677,101
Primary Road Structures				
Construction	369,078			369,078
Maintenance	99			99
Local Road Structures				
Construction		93,110		93,110
Heavy Maintenance		275,765		275,765
Maintenance		2,645		2,645
Equipment Expense--Net (Per Exhibit H)	(85,386)	(159,839)	\$ (45,498)	(290,723)
Administrative Expense--Net (Per Exhibit H)	171,279	156,343		327,622
Capital Outlay--Net (Per Exhibit H)			(168,581)	(168,581)
Debt Service				
Principal Payments			216,120	216,120
Interest Payments			26,126	26,126
Total Expenditures	\$ 2,657,929	\$ 2,344,263	\$ 28,167	\$ 5,030,359

**BARAGA COUNTY ROAD COMMISSION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2004**

**SCHEDULE 1**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
Negotiated Projects (1)				
US Department of Agriculture				
Direct From Natural Resources Conservation Service				
Emergency Watershed Protection Restoration	10.904	69-5D21-3-15	\$ 9,425	\$ 9,425
Emergency Watershed Protection Restoration	10.904	69-5D21-3-12	72,149	72,149
Emergency Watershed Protection Restoration	10.904	69-5D21-3-19	237,101	237,101
Total US Department of Agriculture			318,675	318,675
US Department of Transportation				
Highway Research, Planning and Construction				
Direct--US Department of Interior				
Bureau of Indian Affairs	20.205	AGF50030018	24,302	24,302
Bureau of Indian Affairs	20.205	AGF5003025	202,359	202,359
Passed Through Michigan Department of Transportation				
Surface Transportation Program	20.205	RR 3106 51649A	254,000	254,000
Surface Transportation Program	20.205	RR 3564 54834A	5,086	
Surface Transportation Program	20.205	RR 3613 74840A	16,067	
Total US Department of Transportation			501,814	480,661
Federal Emergency Management Agency				
Passed Through Michigan State Police				
Public Assistance Grant	97.036	013-0c6f6-00	220,466	178,866
Total Negotiated Projects Subject to Single Audit Requirements			\$ 1,040,955	\$ 978,202
Contracted Projects (2)				
US Department of the Army				
Flood Recovery and Mitigation Program	12.103	W911XK-04-C-0014	\$ 311,926	\$ 311,926
Total US Department of the Army			311,926	311,926
US Department of Transportation				
Passed Through Michigan Department of Transportation				
Highway Research, Planning and Construction				
Safety Hazard Elimination Plan	20.205	RR4023 78204A	198,598	198,598
Surface Transportation Program	20.205	RR4023 78204A	198,598	198,598
Surface Transportation Program	20.205	RR4030 78931A	15,160	15,160
Surface Transportation Program	20.205	RR 4065 77756A	43,546	43,546
Surface Transportation Program	20.205	RR 4066 78927A	108,693	108,693
Economic Development "D"	20.205	RR 4067 78871A	94,648	94,648
Surface Transportation Program	20.205	RR 3564 54834A	36,517	36,517
Surface Transportation Program	20.205	RR 3613 74840A	15,100	15,100
Emergency Relief Program	20.205	RR 3613 74840A	12,354	12,354
Total US Department of Transportation			723,214	723,214
Total Contracted Projects			\$ 1,035,140	\$ 1,035,140
Total Federal Aid Projects			\$ 2,076,095	\$ 2,013,342

**The notes to this schedule are an integral part of this statement.**

BARAGA COUNTY ROAD COMMISSION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2004

1. Negotiated projects are projects that the Road Commission's work force performs in accordance with a contract negotiated with Michigan Department of Transportation.
2. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit.
3. This schedule is presented on the modified accrual basis of accounting, please refer to Note B of the financial statement notes for other significant accounting policies.



Baraga County Road Commission  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2004

**Section I--Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issues: unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	_____ Yes	_____ X	_____ No
• Reportable condition(s) identified that are not considered to be material weaknesses?	_____ Yes	_____ X	_____ None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ X	_____ No

*Federal Awards*

Internal control over major programs:

• Material weakness(es) identified?	_____ Yes	_____ X	_____ No
• Reportable condition(s) identified that are not considered to be material weaknesses?	_____ Yes	_____ X	_____ None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ Yes	_____ X	_____ No
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Baraga County Road Commission  
 Schedule of Findings and Questioned Costs  
 For the Year Ended September 30, 2004

**Section I--Summary of Auditor's Results (Continued)**

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.904	Emergency Watershed Protection Restoration
20.205	Highway Research, Planning and Construction

Dollar threshold used to distinguish  
 between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

           Yes      X   No

**Section II--Financial Statement Findings**

No Material or reportable conditions were reported related to internal control.

**Section III--Federal Award Findings and Questioned Costs**

No matters were reported.



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

January 12, 2005

Board of County Road Commissioners  
Baraga County  
US 41 South  
P.O. Box 217  
Baraga, Michigan 49946

RE: Report on Compliance and on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Baraga County Road Commission, a component unit of Baraga County, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 12, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Baraga County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Baraga County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

January 12, 2005

Board of County Road Commissioners  
Baraga County  
US 41 South  
P.O. Box 217  
Baraga, Michigan 49946

RE: Report on Compliance With Requirements Applicable to Each Major Program and  
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Commissioners:

Compliance--We have audited the compliance of Baraga County Road Commission (component unit of Baraga County) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2004. Baraga County Road Commission's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Baraga County Road Commission's management. Our responsibility is to express an opinion on Baraga County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance has occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about Baraga County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Baraga County Road Commission's compliance with those requirements.

In our opinion, Baraga County Road Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2004.

Internal Control Over Compliance--The management of Baraga County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Baraga County Road Commission's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division